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Why a Farm Bill Can't Solve All of Agriculture's Problems

China Applies Brakes
page 13

Editor
Ellen Banker

Assistant Editors
Doug Martinez
Mark Brohan

Editorial Assistant
Martha R. Evans

(202) 786-1494

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PERSPECTIVES

PRECIOUS LITTLE GOOD NEWS in USDA's first export forecast for fiscal 1986, which runs from October 1985 through September 1986. Both value and volume of U.S. agricultural exports will probably drop, according to USDA economists. Specifically, value is pegged at around $29 billion, a 7% decline from fiscal 1985's $31.2 billion and the lowest level since 1978. This is down nearly $15 billion from 1981's record high of $43.8 billion, says economist Steve MacDonald of the Economic Research Service. Export volume, he adds, is estimated at a little over 120 million tons, down 4% from 1985 and the lowest level since 1977.

Three factors are responsible: Large supplies, weak demand, and strong competition. Current world prices for most major crops are not likely to improve significantly, MacDonald says. The reason: excessive supplies. "In 1985, we had the second straight year of record world grain and oilseed crops," MacDonald says. That, combined with a less expansionary world economy, will keep world prices down. Volume will also be cut by continued strong competition from other exporters and a lower demand from traditional importers. Many traditional importers have increased their own production, some have become self-sufficient, and some have even become net exporters. Increased production in the Soviet Union, a major market, will also dampen U.S. export prospects, MacDonald says. And, adding to the slump in world trade, will be continued debt repayment problems in the less developed countries.

U.S. agricultural imports are expected to hit a record $20 billion. Our agricultural trade surplus is forecast to drop by $2.4 billion to only $9 billion, the lowest since 1973.

Highlights for major commodities:

Wheat and flour: World wheat trade will continue to be a buyer's market. U.S. wheat and flour exports are currently forecast at 29.7 million tons (wheat equivalent) worth around $4.0 billion in fiscal 1986. While volume is expected to be about the same as last year, a continued slide in world and U.S. export prices could mean a 10% decline in value. This would result in the lowest value for wheat and flour exports since the $3.1 billion in 1977. Continued gains in wheat production in several major importing countries and a larger Soviet crop are expected to depress world import demand in 1986. Although wheat production is down in the major foreign exporting countries, record stocks will result in exportable supplies that far exceed any expected import demand.

Coarse grains: U.S. exports are forecast at $5.9 billion, down $1 billion from 1985. Prices will likely continue to decline, and volume, forecast at a little over 49 million tons, may hit its lowest level since 1975. The sharp reduction in Soviet demand will more than offset an expected increase in exports to some Latin American and Asian countries. In addition to continued competition from Argentina, Thailand, and China, 1986 will likely see the return of South Africa as a net exporter, following 2 years of net imports.

Oilseeds: There is some good news here. The volume of U.S. soybean exports is expected to increase. The major reason: lower production (and exports) in Brazil. Analysts say the United States may now be able to recapture some portion of the market shares lost to the Brazilians in recent years. Despite larger sales volume, value may be down slightly from 1985's $6.4 billion. Slow growth in meal demand, expanded oilseed production in a number of major importing countries, and large palm oil supplies are helping to weaken prices.

Cotton: U.S. exports are forecast at around 800,000 metric tons worth $1.2 billion, down dramatically from last year's already depressed levels of 1.3 million tons and $2.0 billion. Lower priced Chinese and Pakistani cotton is expected to cut U.S. exports to such key markets as Japan and South Korea.

Livestock, dairy, and poultry: U.S. exports will probably remain about the same as last year. Livestock and livestock products are forecast at $3.3 billion, unchanged from 1985 and 5% below 1984.

FARMLINE

AGRICULTURE . . . NATURAL RESOURCES . . . RURAL DEVELOPMENT
Practical economic intelligence from USDA's Economic Research Service

FEATURES

Agriculture's Problems Require "Macro" Solutions *by John E. Lee* 4

No farm bill can solve many of the fundamental problems now facing American farmers. The broader interests of agriculture depend more on the future direction of fiscal, monetary, tax, and trade policies, explains John Lee, chief economist of the Economic Research Service.

Competing for Space in the West German "Super" Market *by Doug Martinez* 8

West Germany is the world's largest buyer of agricultural products, and the United States is one of its major suppliers. U.S. sales, however, haven't kept pace with the overall growth in West German imports.

Cranberries: On a Year-Round Roll *by Ellen Banker* 12

Cranberry producers used to rely on Thanksgiving and Christmas holiday sales for virtually all their income. Not any more. Cranberries are now a berry for all seasons.

China Applies Brakes to Agricultural Miracle *by Ellen Banker* 13

Government incentives to stimulate crop production in China were a little too successful: Production climbed so much that surpluses overwhelmed the marketing system, and quality didn't always match demand. Last year, the government slashed some incentives, bad weather hit, and crop production dropped for the first time since 1980.

Mexico: Still a Top U.S. Export Market *by Doug Martinez* 14

Faced with population pressures and a farm sector that struggles vainly to meet its domestic food needs, Mexico is likely to remain a major U.S. export market, especially for basic, bulk commodities.

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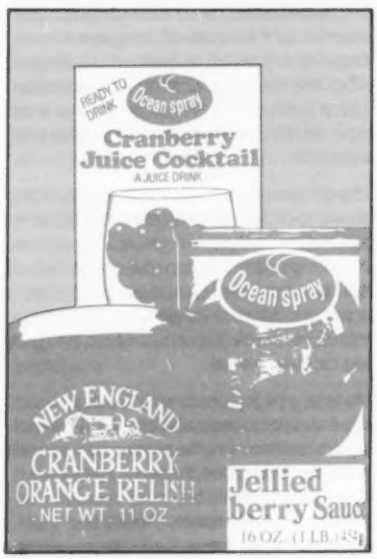
Calendar of Reports 10

Here is your winter/spring guide to release dates for commodity, price, supply-demand, and other periodical reports of the Economic Research Service, Crop Reporting Board, and World Agricultural Outlook Board.



Agriculture's Problems Require "Macro" Solutions

The new farm bill is raising a number of questions. Is it a good bill? How will it affect farmers? Does it offer too little support from government, or too much intervention?

These questions deserve attention, but they can be misleading if they imply that farm legislation alone could be the key to renewed prosperity in agriculture.

In the article that follows, economist John Lee explains why this farm bill, or any other, is unlikely to solve some of the fundamental problems now facing American farmers. For farmers and their representatives to have an effective voice in policies affecting agriculture, they need to pay year-round attention to decisions on the direction of the U.S. economy. General economic policies, Lee contends, affect their broader interests as much as, or more than, a farm bill.

John Lee is the administrator of USDA's Economic Research Service, a position he has held since October 1981. He grew up on a family farm in Pickens County, Alabama. Lee holds a Ph.D. degree in economics from Harvard University and has served as a USDA economist since 1962.

The new farm legislation will be vitally important to American agriculture, perhaps for years to come. Resources throughout the agricultural community and beyond, into government, nonfarm industries, and public interest groups, were mobilized to prepare for and contribute to farm bill deliberations.

Why, then, do many agricultural economists continue to focus their attention elsewhere—on the health of the general economy and the policy decisions that affect it? Why are they suggesting that developments in these two areas could prove even more significant for agriculture than the 1985 farm bill?

The answer requires a basic understanding of *macroeconomic* policy and its impact on agriculture. Macro or general economic policies guide the actions taken by the federal government to shape the nation's economy. *Monetary policy* and *fiscal policy* are the two major components, and they are closely related.

Monetary policy deals with the supply and regulation of money and credit. Fiscal policy determines what the government spends and how it finances those expenditures.

A Primer on Monetary Policy

As the economy grows, it needs more money for normal commercial transactions, capital investments, and other purposes. Monetary authorities, primarily the Board of Governors of the Federal Reserve Board (often called *the Fed*), control growth in the money supply. Briefly, they do this by buying and selling federal securities and by setting rules and regulations for the nation's banking system.

The Fed can fuel economic expansion by allowing the money supply to increase faster than real growth in economic activity. When more money is available relative to the normal needs of the economy, interest rates tend to fall just as the price of any good falls when supply grows faster than demand. When interest rates drop, businesses invest more, consumers buy more, and overall economic activity increases.

Unfortunately, inflation also increases because more dollars are available to buy the same supply of goods and services, thus bidding up their prices.

Conversely, the Fed can "cool" the economy by causing the money supply to expand more slowly than real growth in economic activity. This makes money scarcer relative to the need for it, and that drives up interest rates. Higher interest rates discourage investment, consumer spending, and overall economic activity. At the same time, people have fewer dollars to pay for the same stock of goods and services, so inflation slows.

The Fed must do a balancing act, constantly adjusting the growth rate of the money supply to assure adequate funds for sustainable economic growth without fueling inflation. The Fed's tendency to favor one side of this growth-inflation tradeoff over the other is what characterizes the nation's monetary policy in any given period.

A quick review of recent history may help explain. For several decades culminating in the 1970's, the Fed "targeted" interest rates, allowing inflation to adjust as needed. Low, stable interest rates were maintained by increasing the money supply, which, in turn, tended to push up inflation. Inflation rates began to climb in the late 1960's and early 1970's.

After a number of attempts to check accelerating price levels in the 1970's, runaway inflation finally prompted a major shift in Fed policy. Since 1979, the Fed's policy has been to hold money supply growth within a given range, providing enough money for high but sustainable economic growth while keeping inflation in check. Instead, interest rates are allowed to float up and down to reflect forces in financial markets.

This policy shift has been crucial for agriculture, affecting the availability and cost of credit, inflation rates, land values, currency exchange rates, foreign demand, and economic growth here and abroad. More about that later.

A Primer on Fiscal Policy

Fiscal policy determines how much money the federal government collects and how much it spends. Spending in excess of revenues creates a deficit, and deficit spending can stimulate the economy by pumping more money in than taxes take out. This increases the demand for goods and services, encouraging production and new investments.

Several strategies can be employed to finance federal budget deficits: The government can borrow money from private sources, the Fed can increase the money supply to fund the deficit spending, or some combination of both methods can be used.

Financing the deficit by increasing the money supply was the predominant policy from World War II until the late 1970's. The money supply was increased enough to provide for normal business needs and to cover the federal deficit. This created no major problems as long as budget deficits were mod-

est and tied mostly to cyclical downturns in the economy.

During the 1970's, however, budget deficits grew and became more persistent as rising tax revenues did not keep pace with more rapidly rising federal spending. The policy of financing the deficit by printing more money began to fuel rising inflation. This was the logical result of letting the money supply grow faster than real economic activity.

With the shift in monetary policy at the end of the decade came a parallel shift in fiscal policy. Instead of increasing the money supply to cover the deficit, the government opted to fund the deficit like you and I do—by borrowing money. This policy, pursued more or less since 1980, reduces inflationary pressures but increases competition in credit markets, pushing up interest rates.

Agriculture in Double Jeopardy

In tandem, current fiscal and monetary policies have two striking consequences. First, they send conflicting signals to the economy, since rising deficits effectively put one foot on the accelerator while monetary restraint puts the other foot on the brake.

Second, and more important for agriculture, interest rates are driven up in two ways: by the fiscal policy of borrowing to finance the deficit, and by the monetary policy of allowing interest rates to float to allocate the more tightly controlled supply of money among prospective borrowers. The result is interest rates that, after adjustment for inflation, have been at historically high levels in the 1980's.

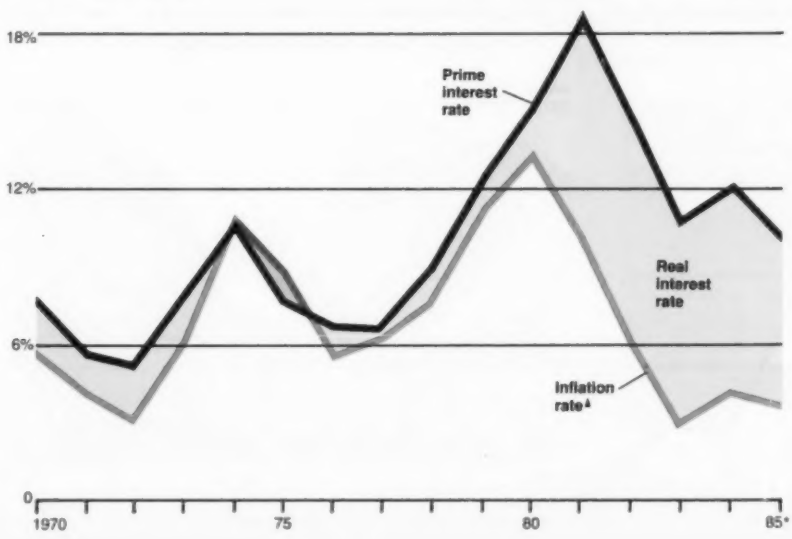
High interest rates are hardest on those sectors of the economy that are capital intensive and export oriented. Capital-intensive industries tend to depend very heavily on borrowed funds. Export-oriented industries are vulnerable to changes in foreign exchange rates, which are strongly influenced by real interest rates here and abroad.

Agriculture fits into both the vulnerable groups. It has the highest ratio of investment to sales of any major industry, making it one of the most capital-intensive sectors of the economy. It also has one of the highest ratios of exports to total production, putting it among the most export-dependent sectors.

We have just seen how large federal deficits and anti-inflationary monetary policy have combined to drive up interest rates. It is equally important, I think, to understand how interest rates and other effects of monetary and fiscal policies are channeled to the farm sector because of agriculture's links with the rest of the U.S. economy and the world economy.

These effects are difficult to trace through, but they can be grouped under three categories: effects on farm costs, effects on

A Major Shift in Economic Policy Ended Runaway Inflation, But Helped Drive Up Real Interest Rates



▲As measured by the CPI-U. *Forecast

the demand for goods that farmers produce, and effects on asset values.

Impact on Farm Costs, Land Values

Because farmers are heavy users of borrowed funds, rising interest costs have increased the costs of production in agriculture. In 1979, farmers' interest expenses amounted to $12 billion, or about 13 percent of all cash production expenses. By 1984, farmers paid more than $22 billion in interest on farm debt, or 19 percent of all costs. Interest had become the largest single cash cost of production in farming.

It is worth adding that when the average interest rate on outstanding farm debt rises by 1 percentage point, farm production expenses increase by about $2 billion.

The high cost of money has also helped to depress the value of farm assets, especially land. Other things being equal, the higher the interest rate, the less one can afford to pay for land.

The demand impacts of macroeconomic policies are just as important as the more obvious cost effects.

Interest on debt became the largest single cash cost of production in farming.

In the late 1970's, an overheated world economy produced galloping inflation, prompting the United States and other industrialized countries to adopt restrictive monetary policies. The less developed countries, meanwhile, were beginning to slow or trim their imports in response to mounting foreign debt problems. In 1980, the world was plunged into a severe recession.

It is against this backdrop of events that our domestic economic policies have had a series of negative effects on the farm economy.

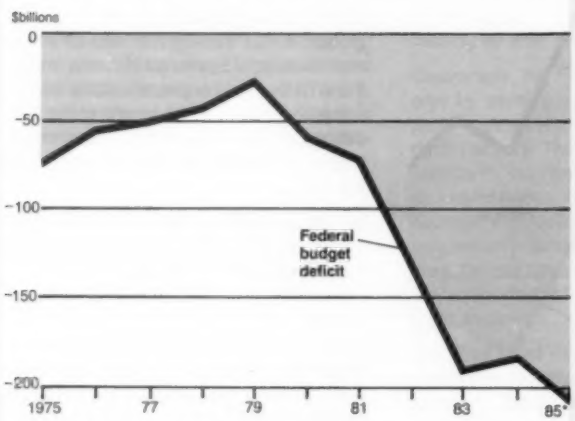
High real interest rates in the United States, coupled with foreign perceptions that the United States was and is a safe haven in troubled times, attracted capital from abroad. The United States quickly became a magnet for foreign investment. Demand for dollars to make those investments caused the dollar's value to appreciate sharply in terms of other currencies. (At the same time, the large inflow of foreign capital masked some of the pressure on our own credit markets, probably slowing the rise in interest rates caused by federal borrowing.)

Some rules of thumb: Each $50 billion of structural deficit in the federal budget causes real interest rates to be 1 or 2 percentage points higher than they would otherwise be. Further, for each 1 percentage point increase in the gap between real interest rates in the United States and those in other countries, the value of the dollar rises 5 to 10 percent.

Translates Into Weaker Demand

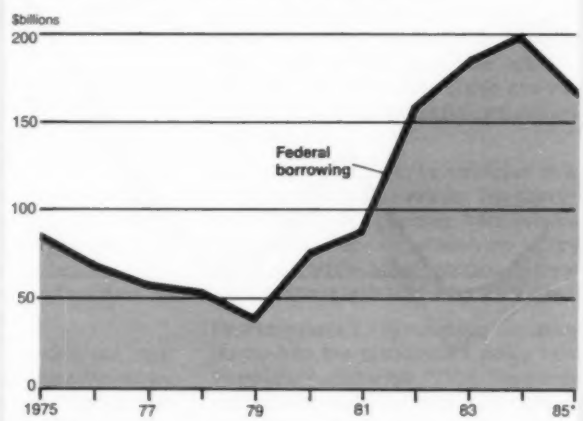
This increase in the value of the dollar—which is perceived as an export price increase for American goods—translates directly into weaker demand for our farm products. The higher value of the dollar relative to other currencies makes U.S. export goods more expensive to foreign buyers, while foreign goods look cheaper to Americans. Hence, U.S. exports decline, and our imports from other nations surge.

Growing Federal Budget Deficits . . .



*Forecast.
Source: Bureau of Economic Analysis.

. . . Financed by Large Federal Borrowing . . .



*Forecast.
Source: Federal Reserve Board's flow of funds account.

General economic data provided by economist Dave Torgerson.

The lost exports end up as larger carryover stocks, which tend to depress farm prices and farm incomes. In other words, farmers end up selling a smaller volume, and often at a lower price.

There are other demand consequences, too, stemming from high real U.S. interest rates and the factors that cause them. As more foreign capital is banked in the United States, for instance, funds available abroad are reduced. Developing nations have less money to pay for imports and to invest in economic recovery and growth. Their potential to become better customers for U.S. farm products is directly tied to their economic growth. The drain of capital from these countries reduces both our near-term and long-term export prospects.

There is still more. The high cost of money and the attractive alternative of investing in dollar-denominated U.S. assets reduces the incentive of other nations to tie up money by holding commodity stocks. They do better by keeping their own food stocks at low levels, letting the United States shoulder the costs of stockholding.

The drain of capital from the developing countries reduces both our near-term and long-term export prospects.

Similarly, private U.S. firms facing high money costs also try to minimize nonessential stockholding, thus pushing the burden back to the farm level. This increases farm costs and reduces demand, the most obvious result of which is lower commodity prices.

A strong dollar has some redeeming features. Lower priced imports hold down U.S. inflation, and that helps hold down farmers' expenses. A 10-percent increase in the value of the dollar reduces the general inflation rate about 1 percent, and that could translate into a reduction of around $1.5 billion in farm production expenses.

Of course, cheap imports also cost us jobs. More than half the income of farm operator households comes from nonfarm sources, primarily wages and salaries. Industries that provide many of the rural jobs in the Southeast and other areas are very vulnerable to foreign competition.

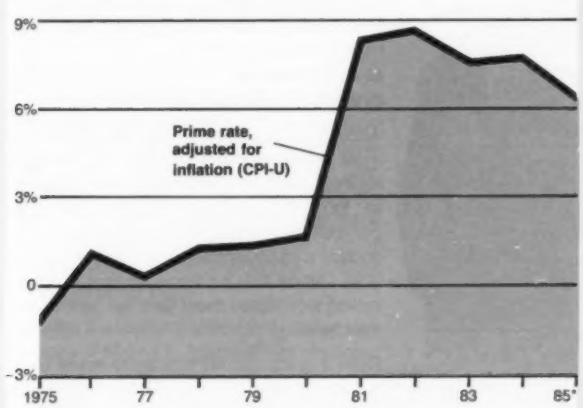
Where Do We Go From Here?

Adding up all the effects of macroeconomic policy on the farm sector, it's easy to see why many agricultural economists are concerned about the general economy. It is our view that macroeconomic developments are the principal source of the problems farmers face today.

As a society, we may have little difficulty agreeing on general economic goals, such as stimulating growth in the economy and reducing interest rates if we can avoid a new round of inflation. Similarly, few people would object to sharp cuts in the federal deficit if that could be accomplished without raising taxes or trimming programs.

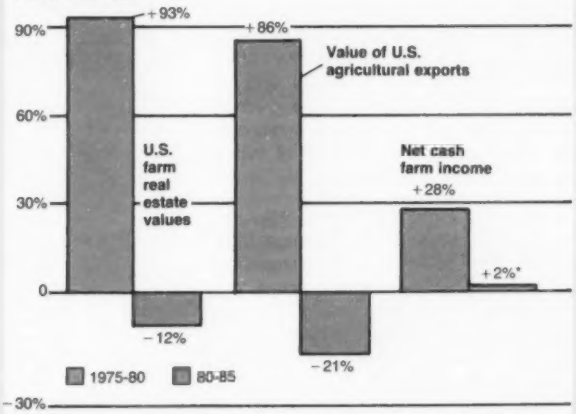
In practice, however, economic decisions involve many tradeoffs and uncertainties. That leaves the future direction of fiscal, monetary, tax, and trade policies open to debate. Whether they participate in the debate or not, farmers have a vital stake in the outcome. □

. . . Help Keep Real Interest Rates Up . . .



*Forecast.

. . . Contributing To Depressed Land Values, Exports, and Farm Income



Based on Feb. 1 or April 1 data for farmland values and fiscal year data for exports.
*1985 forecast. Source: Economic Research Service.

Competing for Space in the West German "Super" Market

The world's largest buyer of agricultural products isn't the United States, Japan, or the Soviet Union. It is West Germany, a country with a population of only about 62 million.

This reminder of the importance of the German market comes from economist Stephen Sposato of USDA's Economic Research Service. "During the 1970's," he says, "the rising affluence of West German consumers provided the major impetus to growth in this market."

Since 1980, he adds, West Germany has spent an average of more than $21 billion a year on farm product imports from its neighbors in the European Community and from dozens of other nations. The United States is one of its major suppliers, and West Germany ranks among the top U.S. farm markets. U.S. sales, however, haven't kept pace with the overall growth in West German agricultural imports.

The U.S. share of the market slipped from 13 percent in 1974 to 11 percent in 1980, even though West Germany bought a record $2.7 billion in American farm products that year. In 1984, West German spending on U.S. farm products dropped to around $1.7 billion, the lowest figure since 1976. The U.S. share of the market fell to just 8 percent.

Sposato claims that West Germany is likely to remain a huge import market. Its agriculture is constrained both by a fairly harsh, northerly climate and by modest land resources. Many of its richest farming areas in the region of Prussia were partitioned into East Germany at the end of World War II.

On the other hand, he says, West Germany's need for some of the major U.S. bulk products is gradually declining. Outside these traditional product areas, the competition is tough, the opportunities are limited, and the United States is handicapped by European trade barriers and a strong American dollar.

At the moment, grains, soybeans, and animal feeds make up around 42 percent of U.S. farm exports to West Germany. This is down sharply from previous years' levels.

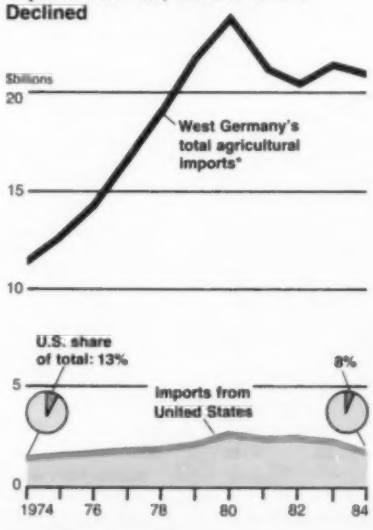
Despite the obstacles, American traders of farm and food products may need to look more to other areas to boost sales—fruits and fish, for example.

Wheat and corn imports will continue to dwindle, Sposato says. West Germany's own production of feedstuffs is increasing. New varieties of corn, which was previously grown only as green fodder in West Germany, are now harvested for grain as far north as the Danish border. That's on a latitude with the Hudson Bay in Canada. Wheat and corn imports for bread and starches are being replaced by domestic production and new milling techniques.

Germany should remain a large—but not a growing—market for U.S. soybeans. Climatic factors will continue to make it difficult for Germany to produce all of its vegetable oil and protein needs.

Sunflowers are another U.S. oilseed crop that has recently found favor with the German consumer. Low cholesterol levels and the neutral taste of the oil make it popular with German homemakers.

As West Germany's Agricultural Imports Climbed, the U.S. Share Declined



*Measured in U.S. dollars.

Deficiency in German Farming

The major deficiency in West German food production is and will remain in tropical products—coffee, tea, cocoa, and citrus and other tropical fruits. None of these are grown in Germany, and all are consumed in large quantities.

The United States exports some tropical products, including oranges and lemons, but so do Spain and Portugal. Both nations are scheduled to enter the European Community (EC) this year, and membership gives them a major competitive advantage over other exporters.

West German imports of processed foods, items such as ready-to-eat soups, have been growing as well. Processed foods accounted for 30 percent of imports in 1980.

"Until very recently, German homemakers prepared soups and most other dishes in the traditional way, using raw ingredients," Sposato says. "That's changing. Today, German homemakers, like their American counterparts, are buying more prepared, convenience foods. The transition began a few decades ago in the United States, but the change has occurred fairly recently in West Germany."

But greater demand does not necessarily translate into larger U.S. sales. The United States has had limited access to this processed foods market. Tariffs are high on many products, and competition from German producers and the free access granted other EC members are difficult barriers to overcome in these circumstances.

According to Sposato, the United States must try to expand exports by "negotiating for freer trade and by tailoring our products for the West German market." One way our exports can be better matched with the preferences of German consumers, he says, is to ensure that package sizes and processing techniques meet German tastes and standards.

Even if tariffs did not turn aside many U.S. products, American exporters still face stringent German food requirements. German health regulations tend to differ significantly from those in the United States and are difficult for U.S. processors to meet.

Food manufacturers who wish to export to West Germany may be obliged, for example, to set up special production and treatment processes to meet German requirements. In many cases, it is difficult to justify so costly an investment, even for the large German market.

Take the case of beer, Sposato says. German law limits the ingredients that can be used to produce beer to the traditional hops and barley malt. Modern manufacturers outside Germany use less expensive substitutes such as manioc and chemical additives in their beer. Germany's EC trading partners recently complained that these purity laws unduly restricted trade. So far, however, Germany has taken no action.

"Conceivably, some of these laws which the Germans feel less strongly about for health reasons could be changed as part of trade negotiations," says Sposato. "There is a price to pay, though. Germans would certainly want greater access to U.S. markets for commodities like cheese where their centuries-old manufacturing traditions give them a specialty niche in the food market."

The United States currently has quotas on imports of cheeses.

High U.S. Dollar a Factor

One other factor, of course, that could favor U.S. exporters is completely out of their hands: the value of the U.S. dollar on world currency markets.

"A weak U.S. dollar helped bolster U.S. exports of processed foods to Germany in our peak sales year of 1980," says Sposato, "but this situation was reversed when the dollar strengthened against the German mark in 1981." In the last 5 years, the dollar doubled in value against the mark, and recent declines in the dollar's value haven't substantially altered the unfavorable exchange ratio.

Despite the dollar's strength and the frustrations of selling to a sometimes sheltered market, U.S. exporters have had some success in discovering growth opportunities in particular product areas.

Among the items that appear to have promising potential for increased exports are frozen blueberries, pecans, raisins, and shellfish. The United States has a nearly 15-percent share of the West German market for frozen blueberries, and the value of pecan exports has doubled in the last 5 years.

"Raisins, too, are becoming more popular in West Germany for more than baking uses," says Sposato. "Test results from market promotion campaigns indicate that good sales potential exists for raisins as a snack food."

U.S. exporters should also do well in selling salmon, lobster, crab, and shrimp to the West Germans.

"The market potential for salmon, especially frozen, is excellent," says Sposato. "Moreover, the outlook for all kinds of crustaceans, including lobster, crab, and shrimp, is good. Continuing water pollution and overfishing problems are diminishing European production."

German Market Tempting

With all its imports, West Germany's agricultural trade deficit is predictably high: $9 billion last year.

"That may mask the fact that West Germany has become one of the world's foremost agricultural exporters," says Sposato. "Concentrating on specialty products such as wine and cheese, and helped by the EC's generous export subsidies, the West German food industry has grown into a formidable international trader."

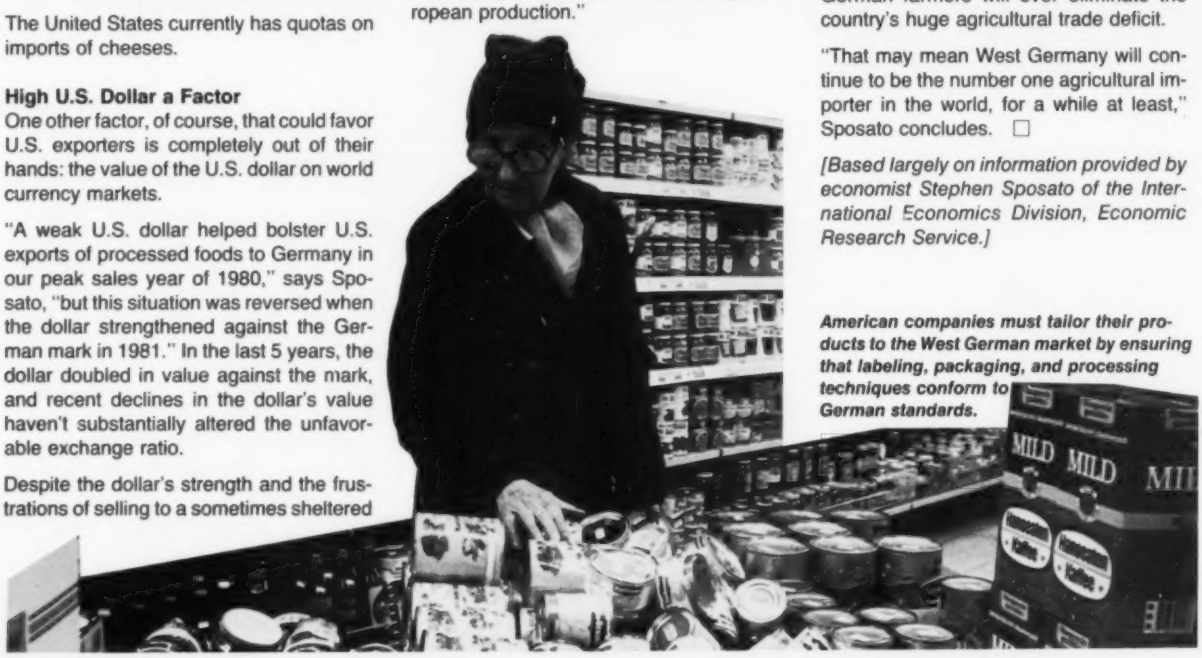
Much of the credit, certainly, goes to West German farmers, who have coaxed high levels of productivity from their typically tiny (by U.S. standards) 40-acre farms. Germany's farmers are aided by modern equipment, much of which could be used on far larger farms.

"That they can afford this overinvestment is a result of the high price supports of the EC's Common Agricultural Policy," notes Sposato.

Try as they might, however, it's unlikely that German farmers will ever eliminate the country's huge agricultural trade deficit.

"That may mean West Germany will continue to be the number one agricultural importer in the world, for a while at least," Sposato concludes. □

[Based largely on information provided by economist Stephen Sposato of the International Economics Division, Economic Research Service.]



American companies must tailor their products to the West German market by ensuring that labeling, packaging, and processing techniques conform to German standards.

1986 Reports Calendar

January-June

Titles of Outlook and Situation reports of the Economic Research Service are printed in color. Summaries of reports are released at 3 p.m. on the dates shown. Copies of complete reports are due off press about a week later. The **World Agricultural Supply and Demand Estimates**

JANUARY

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
		1	2	3 *Egg Products*
6 *Celery* *Dairy Products*	7 *Poultry Slaughter*	8	9 *Vegetables*	10 *Crop Production* *Small Grains* *World Agricultural Supply & Demand*
13 *Turkey Hatchery* *Turkeys*	14	15 *Potato Stocks* *Milk Production*	16	17
20	21 *Catfish*	22	23	24 *Cattle on Feed* *Livestock Slaughter* *Cold Storage*
27 *Noncitrus Fruits & Nuts—Annual* *Peanut Stocks & Processing*	28 *Eggs, Chickens, & Turkeys* *Layers & Egg Prod.—Annual*	29 *Sheep & Goats*	30	31 *Agricultural Prices*

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MONDAY	TUESDAY	WEDNESDAY
3 *Dairy Products*	4 *Egg Products* *Poultry Slaughter*	5 *Agricultural Resources*[1]
10 *Crop Production* *Crop Prod.—Annual* *Grain Stocks; Cattle* *Rice Stocks; World Agricultural Supply & Demand*	11	12 *Turkey Hatchery*
17	18 *Prospective Plantings* *Agricultural Outlook*	19 *Crop Values* *Sugar Market Statistics* *Exports*
24 *Livestock & Poultry*	25 *Eggs, Chickens, & Turkeys* *Fruit*	26

APRIL

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	1 *Poultry Slaughter*	2 *Meat Animals, Prod., Disp., & Income* *Dairy Products*	3	4 *Celery*
7	8	9 *Vegetables* *Agricultural Resources*[1]	10 *Crop Production* *World Agricultural Supply & Demand*	11 *Turkey Hatchery*
14 *Potato Stocks* *Middle East & North Africa*	15 *Cotton*	16 *Milk Production* *FATUS*[2]	17 *Agricultural Outlook*	18 *Poultry, Prod., Disp., & Income* *World Food Needs Update*
21 *Catfish* *East Asia & Oceania*	22	23 *Eggs, Chickens, & Turkeys*	24 *USSR*	25 *Cattle on Feed* *Livestock Slaughter* *Cold Storage*
28 *Peanut Stocks & Processing*	29 *Grain Stocks* *Rice Stocks*	30 *Egg Products* *Agricultural Prices*		

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MONDAY	TUESDAY	WEDNESDAY
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12 *Milk, Prod., Disp., & Income*	13 *Turkey Hatchery*	14 *Milk Production*
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26	27	28 *Peanut Stocks & Processing* *Eastern Europe*

[1]Reports cover Fertilizer and Pesticides, Feb. 5; Land Values Summary, April 9; and Land Values and Markets, June 16.
[2]Foreign Agricultural Trade of the United States.

reports, issued by the World Agricultural Outlook Board, are also printed in color. These reports are released to the press in their entirety on the dates shown. To request subscription information on any of these reports, write: EMS Information, Room 228, 1301 New York Ave. N.W., USDA, Washington, D.C. 20005-4788.

Titles of reports issued by the Crop Reporting Board of the Statistical Reporting Service are printed in black. Complete reports are released, most at 3 p.m., on the dates shown. To request subscription information, write: Crop Reporting Board, Room 5829 South Bldg., USDA, Washington, D.C. 20250.

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19 Crop Values Sugar Market Statistics Exports	20 Catfish FATUS[2]	21 Livestock Slaughter Cold Storage Farm Labor Wheat Yearbook
26	27 Peanut Stocks & Processing	28 Capacity of Refrig. Warehouses Agricultural Prices Feed

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
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Cranberries: On a Year-Round Roll

Life is just a bowl of cranberries for Russ Lawton. It's winter now and things have quieted down a bit. Lawton has a little more time to himself than he did during the fall when he was busy harvesting over 80,000 barrels of cranberries from 400 acres of bogs on Cape Cod and the island of Nantucket in Massachusetts.

Lawton's 1985 season was a good one, with production just slightly below 1984, a trend that, it seems, was mirrored throughout the industry. Nationwide, cranberry production fell 2 percent in 1985 to 3.25 million barrels, after hitting a record of 3.32 million barrels in 1984.

Still, the 1985 crop was considered a good harvest, according to economist Ben Huang of USDA's Economic Research Service. It was, Huang says, 9 percent above 1983's harvest and 224 percent higher than the average harvests of the 1950's.

Clearly, Huang says, these increasing cranberry harvests are the result of a consumer demand that's steadily expanded during the last three decades.

Year-Round Appeal

The fact is that 25 years ago, production was 1.34 million barrels, Huang says, and cranberries sold *only* during the holiday season. Growers depended on Thanksgiving and Christmas sales for their incomes, period. But cranberry products with more year-round appeal have changed all that. (Take an ice-cold cranberry juice cocktail, for example.)

Of course, spreading sales out over the entire year has its merits, grower Lawton says, but the cranberry producers don't want to de-emphasize the holidays either.

Almost all fresh cranberries (at least 90 percent), plus 75 percent of the sauce, and 35 percent of all other products are sold between October and December, according to Christine Masclee, director of communications for Ocean Spray, Inc., the largest cranberry cooperative in the nation. Members of this cooperative (including Russ Lawton) account for about 85 percent of all U.S. cranberry production. The cooperative's home office (in Massachusetts) is based in the top cranberry-producing state. Wisconsin ranks next, followed by New Jersey. Cranberries are also grown in Washington and Oregon, but to a more limited extent.

While the industry may be strong now, many producers remember 1959. That was the year the cranberry industry reeled from a virtual consumer boycott after a pesticide, that had been used by a few growers, was found to cause cancer in rats. Even though industry officials isolated the use of the pesticide and destroyed the contaminated crop, Masclee says, sales fell to levels hardly worth reporting. "This was really the first food scare and it came just before the holidays," she adds. "The industry was just decimated."

It took years to build up again, Masclee says. Ocean Spray (and others) sponsored extensive research into new varieties, production techniques, and products.

It was during the 1960's, Masclee says, that the cranberry juice market really began to take off, and juice blends, such as Ocean Spray's Cranapple®, were introduced. Demand increased with the new products, and growers needed to step up production. They did so, mostly by increasing yields.

Yields jumped from an average 63.4 barrels per acre in 1960 to about 140 barrels today, although the number of acres in cranberries—21,140 in 1960—increased only slightly to 23,820 by 1984. (Wetlands legislation in Massachusetts and Wisconsin restricts the number of new bogs that can be developed.)

Technology: Key to Higher Yields

Two technological developments are responsible for the greatly increased yields, according to economist Bernard J. Morzuch. Morzuch has done extensive research at the University of Massachusetts in Amherst in crop forecasting and the economics of producing cranberries. First, he says, the introduction of sprinkler systems in the early 1960's substantially increased yields by preventing berry loss from frost damage.

In the low-lying areas where cranberries are generally grown, Morzuch says, growers can face frosts as late as May or as early as August. Frost kills the berries and can damage the vines. If there is the danger of a frost, growers turn on the sprinkler system (which is also an irrigation system) to flood the berries. The water acts as a heat source, protecting the berries from freezing.

The same sprinkler system can be used to apply pesticides and fertilizers, reducing labor and application costs, Morzuch adds.

Another yield-saver that's been widely used, but only since the late-1970's, is the wet harvesting method. Before then, cranberries had traditionally been harvested dry.

Morzuch explains the difference: With the dry method, people actually pick the berries and the harvest is fairly labor intensive. It's now used only for cranberries that are going to be packaged for the fresh market. Dry-harvested berries command a premium price for growers, Morzuch adds, but yields are an average 15 to 20 percent lower than for berries harvested using the wet method. The reason, Morzuch says, is that when the berries are harvested by hand, there is more potential for damage from " a bunch of people stomping around in the bogs. Cranberries grow on vines and can be fairly difficult to work around."

The wet harvest is more efficient in preserving more of the crop, but wet-harvested berries must be used in processing (juice, sauce, jam, etc.) because they tend to retain some moisture which makes them unsuitable to be packaged dry, for the fresh market.

Using the wet-harvesting method, producers first flood their bogs. Then, the berries are knocked off the vines by mechanical pickers. They are then "corralled" by floating booms in the water and pushed along with rakes to conveyor belts, which dump the berries into shipping crates. □

China Applies Brakes to Agricultural Miracle

The government incentives to foster crop production worked well: Production jumped 49% between 1978 and 1984.

Agricultural production in China jumped 49 percent between 1978 and 1984, after growing very slowly during the two previous decades. As a result, China has become a healthy new contender in world agricultural markets. But, in 1985, the new contender lost a little bit of punch as China's crop production dropped for the first time since 1980.

Weather, particularly flooding in the northeast, was one major reason for the output decline, according to USDA economist Fred Surls of the Economic Research Service. "But there was also a significant reduction in the government incentives that had stimulated grain and cotton production in the first place," Surls says.

The incentives to foster crop production were actually government guarantees, Surls says. Until this year, the government promised to purchase whatever crops farmers had to sell, and at set prices which steadily increased over the years. Between 1978 and 1983, average farm prices for grains and cotton shot up by 50 percent.

Something of a Mismatch

The initial objective of the incentive program was attained: Production increased. But, over time, it became increasingly apparent that the program was something of a mismatch. "The infrastructure was not able to keep up," Surls says. Not only did farmers produce more than the government wanted to buy, they produced far more than China's marketing system could efficiently handle. There simply wasn't sufficient transportation, storage, and processing capability.

And because retail prices were held down, the government's budgetary outlays jumped enormously. "There was also a discrepancy between the quality of what was being produced and the quality of what consumers actually wanted to purchase."

Take cotton as an example. In recent years, many farmers, particularly those in the northern part of the country, expanded production of higher yielding cottons developed by China's researchers. These varieties, however, have short fibers and poor tensile strength, making them undesirable for mill use. Even so, through 1984, these varieties were widely grown, according to Surls. Probably because there was not much of a price differential between the qualities of cotton, farmers concentrated on yields rather than quality.

Because considerable surpluses of higher yielding, lower quality cottons developed through the 1984 season, official purchases of the 1985 cotton crop were reduced at least 30 percent below 1984 crop purchases, as the government backed off from its buy-all guarantee.

In addition, the government has restricted its purchases of grains.

Producers Face New Risks

This situation has brought a new dimension of "producer risk" to China's farmers. "It's the first time many farmers are facing considerable uncertainty on the prices they'll get and, in some cases, whether they'll be able to sell their crops at all," Surls says.

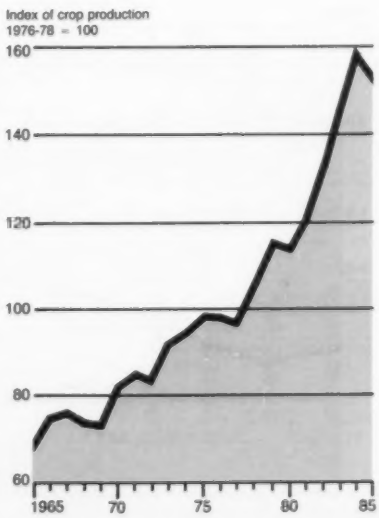
The situation affects most of China's farmers, Surls says, although those who grow oilseeds are one exception. The government is still buying all the oilseeds that farmers can grow. The result is that many farmers who grew corn or cotton are switching to soybeans or other oilseeds, or fruits, vegetables, and specialty crops, and some are leaving agriculture altogether. Another side effect: The rapid increase in the use of fertilizers will slow down, Surls says. This will, in turn, diminish the rate at which yields have been increasing.

There's some good news here for U.S. farmers. China's lower corn and soybean production (despite production incentives, soybean output dropped, too, because of weather problems in the northeast) will translate into less competition in world markets this year. And, over the long haul, China could again become a corn and soybean importer *if* its livestock industry expands as expected (increasing the need for feed grains) and the increases in crop production moderate, also as expected.

For cotton, however, it's another story. China has huge surplus stocks that will fill warehouses for years to come, despite the production declines that economists expect to see. Consequently, China's cotton exports should rise this year, according to Surls, and there are no indications that China's cotton trade will decline in the foreseeable future. "It looks like China is in the world cotton export market to stay," Surls says. □

[Based on information provided by economist Frederic M. Surls of the International Economics Division, Economic Research Service.]

Last Year's Drop in China's Crop Production Was the First Decline Since 1980



Mexico: Still a Top U.S. Export Market

Hampered by the lack of irrigation water and other inputs, Mexican agriculture is still a step behind its American counterpart.

Faced with population pressures and a farm sector that struggles vainly to meet its domestic food needs, Mexico is likely to remain a major U.S. export market, especially for basic, bulk commodities.

That's the word from a pair of economists who say that recent financial problems—fueled by massive foreign debt and falling oil revenues—are only temporary setbacks for a still vigorous Mexican economy.

"Although it will reduce its imports of nonbasic items in the next few years, Mexico will continue to look to the United States for grains and oilseeds, particularly, through the rest of the decade," says Myles Mielke of USDA's Economic Research Service. Mielke recently coauthored an export market profile on Mexico with former ERS analyst Donna Roberts.

Basic commodities—including corn, dry beans, sorghum, wheat, soybeans, and sunflowerseed—comprise the bulk of Mexico's imports from the United States. In fact, Mexico typically takes an average of 80 percent of its farm imports from the United States.

"The United States has sold an average of $2 billion worth of farm goods to Mexico annually since 1980," says Mielke. "That puts Mexico among the top four U.S. markets in the 1980's."

Oil Boom Boosted Imports

Mielke notes that U.S. exports to Mexico first swelled in the 1970's with the discovery and development of Mexico's huge oil reserves.

"This fact, as well as steady population growth, prompted Mexico to rely more heavily on external markets to provide needed food and feedstuffs," he says. "And it didn't hurt that the United States and Mexico share a 2,000-mile common border when Mexico began shopping around."

That proximity had earlier eased the establishment of well-oiled marketing channels, says Mielke.

"Because the United States is Mexico's most important trading partner, a special relationship has developed over the years," he says. "Mexico is also given duty-free entry for some of its exports to the United States."

Mexico's farm exports to the United States—principally coffee, tomatoes and other vegetables, and strawberries—have been above $1 billion a year since 1977. In 1984, the United States purchased $1.3 billion of farm goods from Mexico, 74 percent of Mexico's overall farm exports.

"Traditionally, Mexico has had an agricultural trade surplus with the United States," Mielke says. "That changed in 1980, when farm trade balanced out at about $1.4 billion in favor of the United States."

In each year since then, except 1982, the United States has shown a net surplus in farm trade.

"Mexico's rapidly growing food and feed demands will likely cause the trade balance to remain in the U.S. favor for some time," he adds.

Population Growth Spurs Demand

Spurring such demand has been a 3-percent annual population increase.

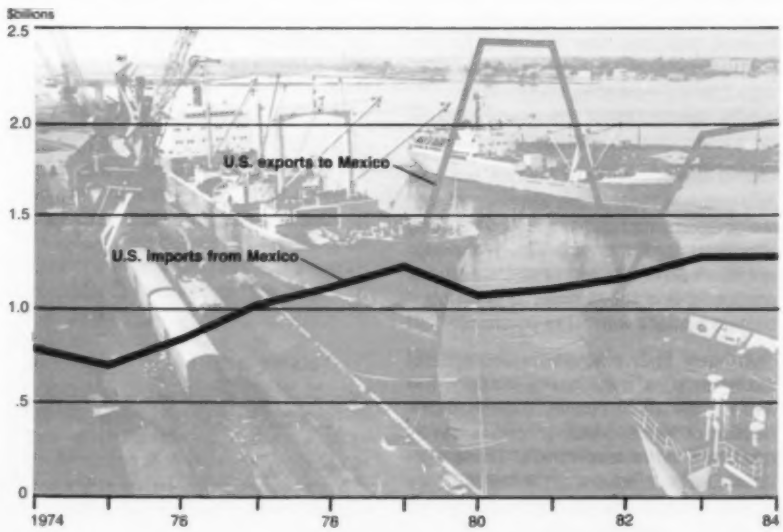
"By the year 2000, Mexico's population will probably exceed 100 million," Mielke says. "Although its population explosion is not uncommon for nations during the course of their development, Mexico's population growth is still remarkable, given its duration and magnitude."

Actual import demand, though, will depend not only on the number of new mouths to feed, but also upon Mexico's ability to work its way out of the present financial crisis—complicated by volatile oil prices and varying interest rates.

And Mexico's needs will depend on nature too. "Highly variable weather will certainly affect Mexican production and, consequently, how much U.S. grain and oilseeds Mexico buys." □

[Based largely on information provided by economist Myles Mielke of the International Economics Division, Economic Research Service, and economist Donna Roberts, formerly of the Economic Research Service.]

U.S. Exports to Mexico Have Been Volatile in the Last Decade, But Still Outpace U.S. Imports from Mexico



Trying To Cope with Massive Debts and Weak Oil Prices

In 1986, Mexico's mounting foreign debt may push past $100 billion for the first time ever.

Next to Brazil, in fact, Mexico now owes more to foreign creditors than any other nation—about $96 billion.

"Mexico's economic difficulties are most vividly reflected in its current balance-of-payments problems," says economist Myles Mielke of the Economic Research Service. "The inflation rate still hovers near 60 percent, and industry remains weakened by a combination of the effects of reduced government spending and huge foreign debt payments."

Economic austerity measures have meant a slowing of economic growth. Mexico's fast pace on the path to development was triggered in the late 1970's when it emerged as a major oil producer.

"As revenues from petroleum exports began to grow, Mexican officials decided to use oil as a lever for more borrowing to pay for investment in public works projects, a larger industrial base, and generous consumer and producer subsidies," Mielke says.

"This rapid growth strategy worked for a few years, but its success was based on the belief that oil prices would continue to rise," he adds. "However, by 1980, prices leveled off."

Interest Payments Soared

At the same time, interest rate payments were soaring on the external debt, largely because loans had been contracted for on a short-term, variable-rate basis. With its trade deficit growing because of lower oil receipts, Mexico was left with less foreign exchange to make interest payments.

The situation soon grew worse when "many Mexicans, anticipating the strains in the balance of payments, lost confidence in the value of the Mexican currency (the peso) and began to send their savings out of the country. More importantly, though, foreign banks that had previously adopted an indulgent attitude toward their Mexican loans began demanding payment."

By the beginning of 1982, the crisis was clearly at hand.

"Interest rates continued to rise as oil glutted the world market," Mielke notes. "The more Mexico's borrowing requirements intensified, the more its creditworthiness deteriorated. By February, the government no longer had sufficient foreign exchange reserves to support the peso, which fell in value by nearly 80 percent against the U.S. dollar."

During the succeeding 6 months, Mexican officials scrambled to sort things out.

"The government tried to regain control of the economy through public expenditure cuts, exchange controls, further devaluations, and finally the nationalization of commercial banks," Mielke says. "Nevertheless, external debt rose to more than $80 billion. In August 1982, Mexico notified foreign banks that it could no longer service its debt. Interest payments alone consumed more than two-thirds of Mexico's oil export income."

Realizing that extraordinary action was critical, Mielke says, "the international financial community came to Mexico's rescue, rescheduling debt payments on a more lenient basis, and Mexico began its long recovery."

Social Costs Staggering

According to Mielke, the social costs of Mexico's austerity programs have been staggering.

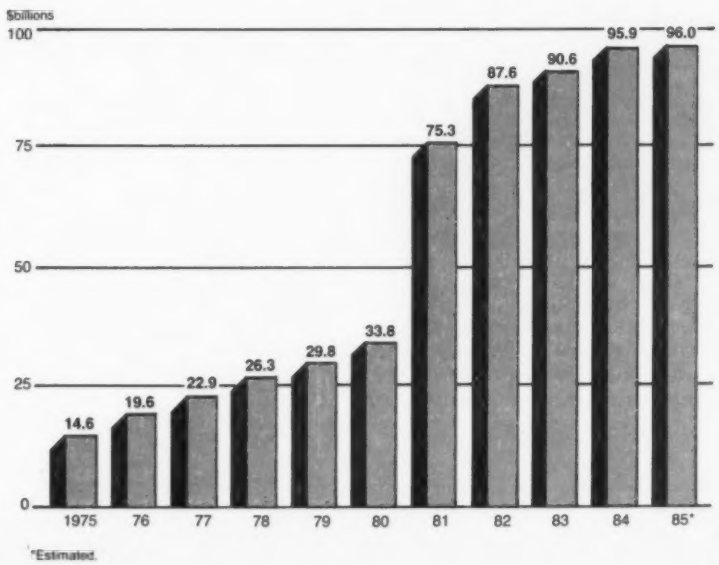
"Unemployment rose sharply and further job losses were averted only by a substantial decline in real wages. The minimum wage was increased by 45 percent in 1983, but the cost of living jumped by more than twice as much," he says.

Mielke goes on to say that "Mexico's present economic situation can only be described as fluid. Even so, Mexico has been the most successful Latin American nation in resolving its debt rescheduling dilemma and reactivating its economy. And after 3 years of cuts in imports and public sector expenditures, the Mexican economy expanded modestly in 1984."

Although the outlook remains brighter than it was a few years ago, Mexico's economic fortunes are still tied to oil exports.

"And that will produce a mixed bag of consequences for the economy," Mielke says, "as it has in recent years."

Mexico's Foreign Debt, Second Largest in the World, Has Jumped $80 Billion Since 1975



*Estimated.

AGRICULTURAL ROUNDUP

A Better Year for Hungry Nations

Global crop production prospects are bearish for U.S. farm prices, but large harvests probably mean a better year for many nations that worry about food shortages.

"Increased world food supplies will mean a significant improvement in the availability of food to hungry nations," says economist Ray Nightingale of USDA's Economic Research Service. "Serious production shortfalls, however, are expected to persist in a number of African, Asian, and Caribbean countries."

Nightingale's assessment is based on the first quarterly update of the annual ERS study on world food needs and availabilities. The study provides a detailed look at food-deficit nations—nations that are unable to produce or purchase enough food to meet their minimum needs.

For the 1985/86 crop year, 69 developing countries will require around 9 million tons of food over and above their normal commercial imports. This is the projected amount needed to maintain consumption at current levels, says Nightingale, who directed the ERS study.

The current forecast represents a drop of 2.7 million tons from 1984/85's food needs. According to Nightingale, the reduction results largely from brighter production prospects in Africa, where rains have finally returned.

World food supplies are up, but severe food shortages persist in many parts of the world.

Gleanings

The government is losing money by taxing farm income, according to economist Ed Reinsel of the Economic Research Service. The fault, he says, lies partly with tax breaks designed to help those who farm for a living. Trouble is the write-offs can also be very attractive to those who get into farming for other reasons.

. . . with help from the IRS, Reinsel compiled the following tax data for 1982, the latest year for which such information is available. Some 2.7 million farm tax returns were filed by individuals, he says, and two-thirds of them reported net farm losses for tax purposes. Their reported farm losses amounted to $18 billion. The remaining one-third of individual farm tax returns reported positive net incomes from farming that totaled about $8 billion. Together, the two groups reported off-farm incomes of nearly $65 billion.

. . . and guess what. Those with the positive farm incomes paid an estimated $1.5 billion in taxes on their $8 billion of net farm income (in addition to taxes on other income). Those with net farm losses paid $7.6 billion in taxes on their nonfarm incomes, but they would have paid about $12.9 billion had their farm losses not been written off against their nonfarm incomes.

. . . in other words, while the government collected $1.5 billion in taxes on farm incomes, it lost a potential $5.3 billion in taxes on the nonfarm incomes of other individuals with farming interests. "If farm income had not been taxed and farm losses had not been used to reduce taxes on other income, the U.S. Treasury would have been $3.8 billion richer," says Reinsel. The figure might be even higher, but Reinsel was unable to obtain comparable tax data for the 180,000 farm partnerships and corporations.

. . . it is virtually impossible, he adds, to sort out the writeoffs that result from hobby farms or tax avoidance schemes from the "real" economic losses to individuals usually thought of as farmers. Another problem with tax breaks is that they often offer the greatest benefits to those with the highest incomes. Not surprisingly, individuals reporting $60,000 or more in taxable incomes—before subtracting farm losses—did the most sheltering. Their tax bill would have jumped by $2.7 billion if farm losses hadn't been written off.

. . . however, sheltering nonfarm income with farm losses isn't unique to the wealthy. It occurs in all income groups and appears to be increasing. In 1962, some 35% of individual farm

As Tax Rules Stand, the Treasury Loses by Trying To Tax Farm Income

	Number of returns	Farm income or loss	Estimated tax on total income, with farm net income or loss . . .	
			Included	Excluded
Tax returns with:				
Positive farm net	993,000	$8 bil.	$3.6 bil.[1]	$2.1 bil.
Farm loss	1,759,000	−$18 bil.	$7.6 bil.	$12.9 bil.
All returns	2,692,000	−$10 bil.	$11.2 bil.	$15.0 bil.

[1]Includes $1.5 billion in tax on farm income and $2.1 billion in tax on other income. Estimate assumes that farm income is added to other income.

Although the picture has improved somewhat, deficits are still very large. In fact, the 9-million-ton figure is based only on maintaining "status quo" consumption levels rather than on meeting minimal nutritional standards. To meet such standards in 1985/86, the world's hungry nations would need around 18.6 million tons of food—twice the status quo level.

"Even if donor nations could provide all that is needed to bring average diets to a basic nutrition level," Nightingale notes, "food-deficit nations would be able to absorb only about 15 million tons because of physical constraints."

Hampered by poor roads, shortages of trucks, and logistical bottlenecks in moving grain from ports, these countries sometimes find it as difficult to distribute the food once it arrives as it was to obtain it in the first place.

Africa is a case in point. The world's awareness of the continent's crisis did not emerge as quickly as it might have—and difficulties in delivering food have prolonged Africa's agony.

"With the world's attention focused on Africa, large amounts of food aid have been allocated to the continent," says Nightingale.

Africa's estimated need for more than 4.5 million tons of food in 1985/86 to keep up current consumption levels outstrips food needs in other parts of the world—but still signifies an improvement over 1984/85 when its needs were 1-to-2 million tons greater.

Asia's status quo needs are also large, projected at 3.5 million tons of food for 1985/86. Latin America needs about 347,000 tons of food, and the Middle East needs 714,000 tons, says Nightingale.

The U.S. government funded more than $2 billion worth of food assistance in fiscal 1985, but spending is likely to go down in the current year. In fiscal 1985, Nightingale estimates U.S. food shipments at 7.3 million tons worth $2.2 billion. For fiscal 1986, federal expenditures on U.S. food aid are expected to be about $1.7 billion.

Other major agricultural producers—Australia, Canada, the European Community, and Japan—also make large food donations. In fact, total U.S. and foreign food assistance given in the form of cereal grains from July 1984 to June 1985 was estimated at 11.7 million tons, surpassing for the first time the 10-million-ton target set by the World Food Conference in 1974.

"The increased aid is certainly a reflection of the African crisis and the availability of commodities in major producing nations," says Nightingale. "Along with the food assistance, however, is a growing recognition that people in Africa and Latin America will cease to starve only when civil strife is ended and governments invest more in agriculture."

proprietors reported negative incomes from farming. In 1982, the figure was 65%. True, 1982 was not a high income year for farmers, but the percentage of farmers reporting losses has been rising steadily for at least two decades, Reinsel notes.

. . . what is the solution? It seems Uncle Sam could increase tax revenues, cut the federal deficit, put an end to tax-loss farming, and make life easier for some struggling farmers—all at the same time—simply by eliminating individual federal income taxes on farming operations. But, no, Reinsel does not expect Congress to take such a dramatic step.

. . . rather, he is pointing out the significant price attached to current tax benefits that reward investment in agriculture, and other industries as well, even when a primary purpose of the investment is to shelter income and reduce taxes. "In effect," says Reinsel, "this amounts to a subsidy through the tax system, and much of the subsidy goes to individuals at higher income levels, most of whose income comes from outside agriculture. Their combination of nonfarm incomes and farm losses suggests that, for many of them, the motivation for investing in farming may have little to do with earning a living off the land."

A sharp cut in farm program loan rates would hurt some American farmers, but it could put a great many foreign producers out of business. So speculates economist Thomas Vollrath of the Economic Research Service. He notes that the United States has a significant comparative advantage in agriculture—an advantage obscured by loan rates that have held U.S. prices above market levels since import demand began to weaken in the early 1980's. Farmers abroad are currently encouraged to produce for world markets, in part because they can undercut high U.S. loan rates. Foreign producers, he suggests, would face a formidable challenge if they had to go head-to-head in free competition with efficient U.S. farmers.

. . . agriculture's future prosperity is linked to international markets and our ability to compete in those markets, adds Vollrath. The desire to reduce U.S. loan rates gradually to cushion the adjustment for American farmers is understandable, he says. However, he cautions that too gradual an adjustment carries significant risks for our competitive position. "The longer we provide a protective umbrella for foreign producers with loan rates above market levels, the more cost competitive they can become." In effect, he says, we may be indirectly taxing our agriculture while subsidizing the expansion and modernization of farm sectors abroad.

Wheat flour accounts for less than 1% of the value of all U.S. agricultural exports, but according to recently released United Nations data, America was the world's leader in wheat flour exports in 1983. "The U.S. market share was just over 29% in 1983, doubling 1982's exports," says ERS economist Stephen W. Hiemstra, "but the increase was due almost entirely to a special subsidy program of sales to Egypt." Since then, France has been Egypt's major wheat flour supplier, according to ERS economists, and this may have pushed the United States into second place in world wheat flour trade behind the European Community.

Ties That Bind

Farming has always been tied to the larger economy here and abroad, but the links have multiplied and grown much closer in recent decades, according to senior economist Alden Manchester of the Economic Research Service.

The reasons, he says, include a world economy that has become more interdependent, business cycles that have become more global in nature, and farmers who have become more dependent on purchased inputs, capital-intensive technologies, borrowed money, and export markets.

Manchester examined these linkages, why they evolved, and how closely they bind agriculture and other sectors of the U.S. and world economy together. Here are just a few of his observations:

- The share of the U.S. labor force in farming declined from 84 percent in 1810 to 40 percent by the turn of the century. Today, only about 3 percent of the labor force is engaged in farming. In 1869, 71 percent of consumer income was spent for products originating on U.S. farms. In 1983, only 18 percent of income went for such products.
- The food and fiber system is one of the largest sectors of the U.S. economy, accounting for nearly 20 percent of the nation's GNP. However, the system now requires many more nonfarmers than farmers.
- The transformation of the U.S. economy changed farming from a nearly self-sufficient enterprise to the specialized, interdependent system of today. Much of the work and many of the functions formerly performed on farms have shifted to nonfarm firms.
- Linkages between farming and financial institutions have been growing in importance over the years. In the early 1950's, net borrowing (new loans minus repayments) financed about 11 percent of annual capital investment in farm assets. By 1982, the figure had risen to 49 percent.

***Agriculture's Links with U.S. and World Economies** by Alden Manchester. (Published September 1985; 49 pages of text, charts, and tables; GPO Stock Number 001-019-00409-6; $1.50.)*

Food Grain Buyers and Sellers

The volume of world wheat trade climbed from 36 million metric tons in 1962 to almost 100 million tons in 1982 and 1983. The U.S. share of world wheat exports was 38 percent in 1983—no change from 1962, but down from the 45.7-percent share captured by the United States in 1981.

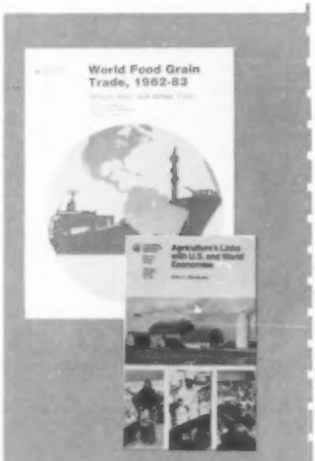
Through most of the 1960's, India was the largest importer of U.S. wheat. In 1983, our largest single customer was the Soviet Union, but the USSR bought more wheat from Canada and Argentina than it did from the United States.

World trade in rice grew from 6.3 million metric tons in 1962 to 11-13 millions tons a year in the early 1980's. In the same period, the U.S. share of world exports rose from less than 20 percent to more than 25 percent before falling back below 20 percent in 1983. The United States was the third largest rice exporter in 1962. By the early 1980's, the United States and Thailand were switching back and forth between the number one and number two spots.

World trade in wheat flour was only about a third higher in 1983 than it was in 1962. The United States—the largest wheat flour exporter in the 1960's—is now more often in second place behind France.

Year-by-year statistics on world trade volume in wheat, rice, and wheat flour are available in this new statistical bulletin published by the Economic Research Service. The bulletin carries more than 70 pages of tabular data covering 1962 to 1983. Figures for each year are broken down by major importing regions and major exporters, linking both the origin and destination of wheat, rice, and wheat flour imports.

***World Food Grain Trade, 1962-83** by Arthur Mackie, Stephen Hiemstra, and Stacey Rosen. (Published October 1985; 89 pages, mostly data tables; GPO Stock No. 001-019-00415-1; $3.50)*



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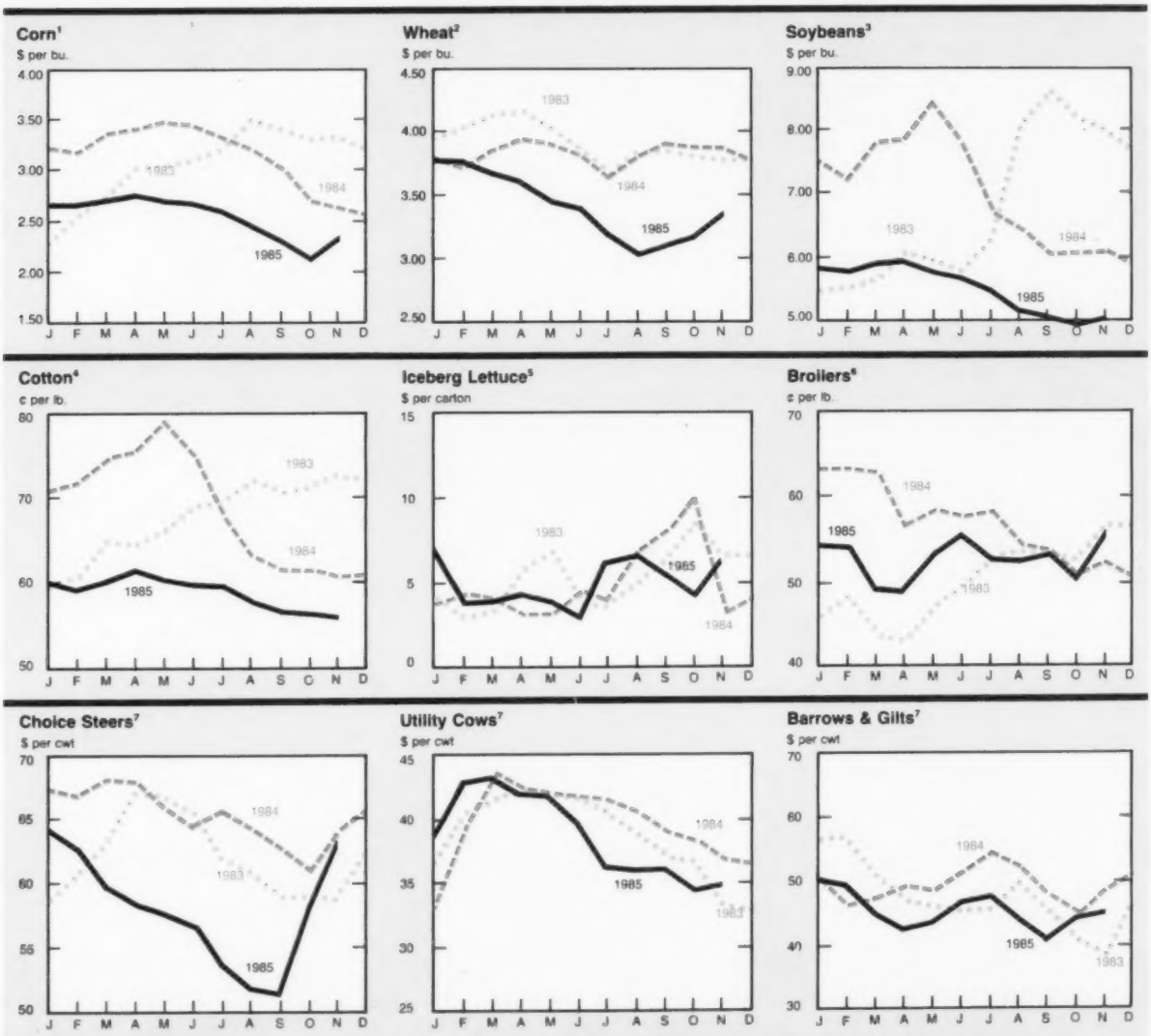
Monthly Price Monitor

USDA's November index of farm prices increased 2.4% from October but was still 7.4% below its year-earlier level. Corn gained 22¢ to $2.32 per bushel, wheat climbed to $3.34 (the highest price since June), and soybeans were back above $5. Cotton held near October's level. Lettuce gained about $2 per carton, topping the $6 mark. In the meat animals area, broiler prices recovered to 55.5¢, matching June's high for the year. Choice steers jumped $5 per cwt to $63.13—the first time since February that prices exceeded $60. Utility cows rose slightly above October's low, and barrow and gilt prices inched above $45. All prices shown are monthly averages.



[1]No. 2 yellow, Central Illinois. [2]No. 1 HRW, Kansas City. [3]No. 1 yellow, Central Illinois. [4]SLM 1⅛" spot market price. [5]Standard carton 24's, California-Arizona. [6]Wholesale, New York. [7]Omaha.

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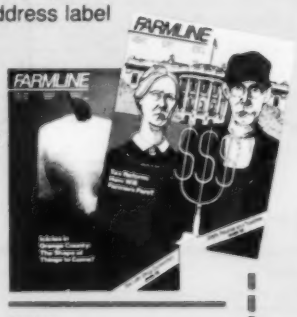

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